

June 3, 2002

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Room TWB-204
Washington, D.C. 20554

Dear Ms. Salas:

Re: Ex Parte:

In re: Application of GTE Corp. and Bell Atlantic Corporation For Consent to Transfer Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License, CC Docket No. 98-184

The enclosed materials are being filed pursuant to Verizon Communications, Inc.'s ("Verizon") obligations under Appendix D, Section XXII, Paragraph 56 (e) of the above referenced docket to obtain independent examinations of its compliance with the merger conditions and its controls over compliance with the merger conditions. The accompanying material includes:

- Report of Management on the Effectiveness of Controls Over Compliance with the Merger Conditions
- Report of Independent Accountants on the Effectiveness of Controls Over Compliance with the Merger Conditions
- Report of Management on Compliance with the Merger Conditions
- Report of Independent Accountants on Compliance with the Merger Conditions.

As a result of the letter dated May 29, 2002 from the FCC staff to Verizon which clarified the scope of our examination, our reports do not address or opine on the Company's compliance with the requirements of merger condition V, *Carrier to Carrier Performance Plan*, merger condition VIII, *Collocation, Unbundled Network Elements and Line Sharing Compliance*, and merger condition XIX, *Additional Service Quality Reporting*. Merger conditions V, VIII and

Ms. Magalie Roman Salas
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XIX will be the subject of a separate attestation engagement report. As addressed in the May 29, 2002 letter, the filing deadline for this separate attestation engagement report is October 1, 2002.

Paragraph 56(e) requires that these examination reports be made publicly available. Therefore, their distribution is not limited. Please place a copy of the attached independent accountant's report in the Ex Parte file of the above referenced proceeding.

Very truly yours,

By PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

JH:sa

Enclosures

cc: Ms. M. Del Duca
Mr. H. Boyle
Mr. A. Dale
Mr. M. Stephens
Mr. M. Stone

**Report of Management on the Effectiveness of
Controls over Compliance with the Merger Conditions**
May 31, 2002

Management of Verizon Communications Inc. ("Verizon") is responsible for establishing and maintaining effective internal controls over the Company's¹ compliance with the Conditions set forth in Appendix D (the "Merger Conditions") of the Federal Communications Commission's ("FCC's") Memorandum Opinion and Order in CC Docket No. 98-184 approving the Bell Atlantic/GTE Merger.² The internal controls are designed to provide reasonable assurance to the Company's management and Board of Directors that the Company is in compliance with the Merger Conditions.

Management's assertions that follow do not relate to compliance with Condition I (Separate Affiliate for Advanced Services) as this is addressed in a separate report, and do not include assertions relating to Merger Condition V, VIII, or XIX (*See* Letter from Ms. Maureen Del Duca to Jeffrey Ward on May 29, 2002).

The Company's internal controls have been designed to comply with the Merger Conditions. There are inherent limitations in any control, including the possibility of human error and the circumvention or overriding of the internal controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to the achievement of the objectives of internal controls. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

¹ The word "Company" or "Companies" used throughout this assertion refers to the Verizon telephone companies operating as incumbent local exchange carriers ("ILECs"), collectively as follows: Contel of Minnesota, Inc. d/b/a Verizon Minnesota, Contel of the South, Inc. d/b/a Verizon Mid-States, GTE Alaska Incorporated d/b/a Verizon Alaska, GTE Arkansas Incorporated d/b/a Verizon Arkansas, GTE Midwest Incorporated d/b/a Verizon Midwest, GTE Southwest Incorporated d/b/a Verizon Southwest, The Micronesian Telecommunications Corporation, Verizon California Inc., Verizon Delaware Inc., Verizon Florida Inc., Verizon Hawaii Inc., Verizon Maryland Inc., Verizon New England Inc., Verizon New Jersey Inc., Verizon New York Inc., Verizon North Inc., Verizon Northwest Inc., Verizon Pennsylvania Inc., Verizon South Inc., Verizon Virginia Inc., Verizon Washington, DC Inc., Verizon West Coast Inc., Verizon West Virginia Inc., provided that, with regard to the Micronesian Telecommunications Corporation, these assertions only apply to Merger Conditions IV, XIV, XVII, XVIII, XIX, XXI, XXII, XXIII, XXIV, and XXV (see Merger Conditions, n.3).

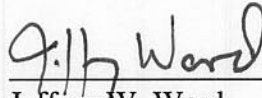
² *Application GTE Corp. and Bell Atlantic Corp. for Consent to Transfer Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License*, CC Docket No. 98-184, Memorandum Opinion and Order, FCC 00-221 (rel. June 16, 2000).

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The Company has determined that the objectives of the internal controls with respect to compliance with the Merger Conditions are to provide reasonable, but not absolute, assurance that compliance with the Merger Conditions has been achieved.

The Company has assessed its internal controls over compliance with the Merger Conditions, exclusive of Conditions I, V, VIII, and XIX, as noted in the second paragraph of this report. Based on this assessment, the Company asserts that for the year ended December 31, 2001, its internal controls over compliance with the Merger Conditions were effective in providing reasonable assurance that the Company has complied with the Merger Conditions.

Verizon Communications Inc.

A handwritten signature in dark ink, appearing to read "J. W. Ward", is written over a horizontal line.

Jeffrey W. Ward,
Senior Vice President - Regulatory Compliance

Dated: May 31, 2002

Report of Independent Accountants

To the Board of Directors of Verizon Communications Inc.:

We have examined Verizon Communications Inc.'s (the "Company" or "Verizon") internal control over compliance with Appendix D (the "Merger Conditions") of the Federal Communications Commission's (the "FCC") Memorandum Opinion and Order in Common Carrier Docket No. 98-184 approving the Bell Atlantic/GTE Merger¹, during the Evaluation Period², and management's assertion, included in the accompanying Report of Management on the Effectiveness of Control Over Compliance with the Merger Conditions (the "Assertions"), that the Company maintained effective internal control over compliance with the Merger Conditions during the Evaluation Period. At the direction of the FCC and the Company, the Company's internal control over compliance with Condition I, *Separate Affiliate for Advanced Services*, of the Merger Conditions is not reported upon herein and is not addressed in the accompanying management's Assertion. This report does not address the Company's internal control over compliance with Condition V, *Carrier to Carrier Performance Plan*, Condition VIII, *Collocation, Unbundled Network Elements and Line Sharing Compliance*, and Condition XIX, *Additional Service Quality Reporting*, and those conditions are not addressed in the accompanying Assertion, as the scope of our examination related to those conditions was clarified by the FCC staff in a letter dated May 29, 2002 to the Senior Vice President—Regulatory Compliance of Verizon from the Deputy Chief, Investigations and Hearings Division of the Enforcement Bureau and accordingly, our examination of internal control for those conditions has not been completed. The Company's management is responsible for maintaining effective internal control over the Company's compliance with the Merger Conditions. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the Company's internal control over compliance with the Merger Conditions, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

¹ *Application of GTE Corporation, Transferor, and Bell Atlantic Corporation, Transferee, for Consent to Transfer Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License*, CC Docket No. 98-184, Memorandum Opinion and Order, FCC 00-221 (rel. June 16, 2000).

² The Evaluation Period is the year ended December 31, 2001, with the exception of Conditions VIII and XIII for which the Evaluation Period is July 1, 2001 through December 31, 2001, as provided in Paragraphs 27b and 28a of Appendix D.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the Company's internal control over compliance with the Merger Conditions to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained effective internal control over compliance with the Merger Conditions, other than for Conditions I, V, VIII and XIX, during the Evaluation Period, in all material respects.

This report is intended solely for the information and use of the Company and the FCC and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.

PricewaterhouseCoopers LLP
May 31, 2002

Report of Management on Compliance With the Merger Conditions May 31, 2002

Management of Verizon Communications Inc. (“Verizon”) is responsible for ensuring that Verizon complies with the conditions set forth in Appendix D (“the Merger Conditions”) of the Federal Communications Commission’s (“FCC’s”) Memorandum Opinion and Order in CC Docket No. 98-184 approving the Bell Atlantic/GTE Merger.¹

Management’s assertions that follow do not relate to compliance with Condition I (Separate Affiliate for Advanced Services) as this is addressed in a separate report, and do not include assertions relating to Merger Condition V, VIII, or XIX (*See* Letter from Ms. Maureen Del Duca of the FCC to Jeffrey Ward on May 29, 2002).

Management has performed an evaluation of Verizon’s compliance with the requirements of the Merger Conditions for the year ended December 31, 2001 for the Merger Conditions (the “Evaluation Period”). Based on this evaluation, we assert that, during the Evaluation Period, Verizon has complied with all requirements of the Merger Conditions in all material respects. In addition, Verizon provides the following information regarding compliance with the Merger Conditions.²

Promoting Equitable and Efficient Advanced Services Deployment

I. Separate Affiliate for Advanced Services

As provided in paragraph 57 of the Merger Conditions, compliance with this condition is addressed in a separate agreed-upon procedure engagement performed by PricewaterhouseCoopers LLP.

II. Discounted Surrogate Line Sharing Charges

The provisions of this Condition will apply only if the FCC line sharing rules are overturned on a final and non-appealable judicial decision.

¹ *Application of GTE Corp. and Bell Atlantic Corp. for Consent to Transfer Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License*, CC Docket No. 98-184, Memorandum Opinion and Order, FCC 00-221 (rel. June 16, 2000).

² This report does not address immaterial matters, including those immaterial matters in Verizon’s Annual Compliance Report filed with the FCC on March 15, 2002.

Report of Management on Compliance With the Merger Conditions

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III. Loop Conditioning Charges and Cost Studies

The Companies³ complied with the requirements of this condition by continuing to make interim loop conditioning rates available in those states where permanent rates had not been approved by a state commission. These rates are subject to true up in accordance with the terms of the Merger Order. The Companies did not charge for conditioning of eligible loops less than 12,000 feet to meet minimum requirements through the removal of load coils, excessive bridged taps, and/or voice grade repeaters, and obtained telecommunications carrier authorization prior to proceeding with any conditioning that would result in charges to the telecommunications carrier.

IV. Non-discriminatory Rollout of xDSL Services

Verizon complied with the requirements of this condition in the following manner:

- a. In each state where xDSL had been deployed in at least 20 urban or 20 rural wire centers, at least 10% of the wire centers Verizon deployed were from the Low Income Urban Pool or the Low Income Rural Pool, respectively.
- b. Verizon filed the 2001 quarterly status reports demonstrating compliance with this Condition on April 30, 2001, July 31, 2001, October 31, 2001, and January 28, 2002.

Ensuring Open Local Markets

V. Carrier-to-Carrier Performance Plan (Including Performance Measurements)

This report does not address compliance with this Condition, as described above.

³ The word “Company” or “Companies” used throughout this assertion refers to the Verizon telephone companies operating as incumbent local exchange carriers (“ILECs”), collectively as follows: Contel of Minnesota, Inc. d/b/a Verizon Minnesota, Contel of the South, Inc. d/b/a Verizon Mid-States, GTE Alaska Incorporated d/b/a Verizon Alaska, GTE Arkansas Incorporated d/b/a Verizon Arkansas, GTE Midwest Incorporated d/b/a Verizon Midwest, GTE Southwest Incorporated d/b/a Verizon Southwest, The Micronesian Telecommunications Corporation, Verizon California Inc., Verizon Delaware Inc., Verizon Florida Inc., Verizon Hawaii Inc., Verizon Maryland Inc., Verizon New England Inc., Verizon New Jersey Inc., Verizon New York Inc., Verizon North Inc., Verizon Northwest Inc., Verizon Pennsylvania Inc., Verizon South Inc., Verizon Virginia Inc., Verizon Washington, DC Inc., Verizon West Coast Inc., Verizon West Virginia Inc., provided that, with regard to the Micronesian Telecommunications Corporation, these assertions only apply to Merger Conditions IV, XIV, XVII, XVIII, XIX, XXI, XXII, XXIII, XXIV and XXV (see Merger Conditions, n.3).

Report of Management on Compliance With the Merger Conditions

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VI. Uniform and Enhanced Operational Support Systems and Advanced Services Operational Support Systems

The Companies complied with the requirements of this condition in the following manner:

- a. On July 2, 2001, the Companies adopted in each Bell Atlantic and GTE State the Bell Atlantic change management process originally developed as part of the New York Proceeding, dependent on State approvals. State approvals were required in California (approved on July 2, 2001), Hawaii (approved on June 15, 2001) and Indiana (approved based upon California approval). The Companies offered to include in their interconnection agreements with CLECs a commitment to follow the uniform change management process.
- b. By September 28, 2001, uniform transport and security protocols were implemented across the merged Bell Atlantic and GTE service areas.
- c. During the Evaluation Period, the Companies offered to develop and deploy electronic bonding interface (EBI) within 12 months of an executed contract. No enhancements had become industry standard as of December 31, 2001.
- d. The Companies provided 25% discounts on recurring and nonrecurring charges for unbundled local loops used to provide advanced services to all carriers during the Evaluation Period unless a carrier proactively chose not to accept the discount in accordance with the Merger Conditions and as follows:
 - Verizon filed an ex-parte on January 26, 2001 with the FCC Chief of the Common Carrier Bureau that Verizon had developed and deployed standard OSS interfaces for pre-ordering and ordering unbundled network elements used to provide xDSL and other Advanced Services and certifying that Verizon Advanced Data, Inc. was using those OSS interfaces for more than 75% of the pre-ordering and ordering transactions it submits to the Companies in Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New York, Pennsylvania, Rhode Island, and Vermont. This discount was terminated on March 17, 2001, in those states.
 - The notification of the discount is posted on Verizon's Wholesale Website.
 - In some instances, the Companies under billed for unbundled loops used to provide advanced services. In some states to avoid over billing, Verizon's policy has been to bill all carriers at the lowest rate for unbundled loops used to provide advanced services in any interconnection agreement, state approved rate, or tariff in each state. Verizon has no plans to re-coup this under billing to customers unless the merger discounts can be accurately and correctly applied as part of that process.

VII. OSS Assistance to Qualifying Competitive Local Exchange Carriers

The Companies complied with the requirements of this Condition by assisting qualifying telecommunications carriers in using the Companies' OSSs. The Companies informed

Report of Management on Compliance With the Merger Conditions

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telecommunications carriers of the self-certification process, allowing telecommunications carriers to assert that they qualify for assistance and of the availability, free of charge, of OSS expert teams. In addition, the Company made available OSS support teams and held training forums to discuss training and procedures that would be beneficial to qualifying telecommunications carriers. The Company provided notice of such training and procedures to qualifying Competitive Local Exchange Carriers on the Verizon Wholesale Website.

VIII. Collocation, Unbundled Network Elements and Line Sharing Compliance

This report does not address compliance with this Condition, as described above.

IX. Most-Favored-Nation Provisions for Out-of-Region and In-Region Arrangements

The Companies complied with the requirements of this condition by making available to requesting telecommunications carriers in the former Bell Atlantic and GTE service areas interconnection arrangements, unbundled network elements, or provisions of an interconnection agreement (including an entire agreement) subject to 47 U.S.C. 251(c) and Paragraph 39 of the Merger Conditions as follows:

- a. Out-of-Region - as of December 31, 2001, Verizon had not received any CLEC requests for Verizon affiliate out-of-region MFN arrangements. In addition, during 2001, Verizon, when acting outside its incumbent service area, did not enter into any interconnection arrangements or obtain UNEs from an incumbent LEC that were not previously made available by the non-Verizon incumbent.
- b. In-Region, post merger – subject to the requirements of the Merger Conditions, the Companies made available any in-region interconnection arrangement or unbundled network element that was voluntarily negotiated by the Companies with a requesting telecommunications carrier after the Merger Close Date.
- c. In-Region, pre-merger – subject to the requirements of the Merger Conditions and except as specified in e. below, the Companies made available any in-region interconnection arrangement or unbundled network element that was voluntarily negotiated by Bell Atlantic or GTE with a requesting carrier prior to the merger, but limited to the states within the same pre-merger Bell Atlantic or GTE serving areas, respectively.

These offers were on the same terms exclusive of price and state-specific performance measures.

Where a competing carrier seeks to adopt, in an in-region Verizon service area, any agreements, provisions or unbundled network elements that resulted from an arbitration arising in another Verizon service area after the merger closing date, the Merger Conditions require the Companies to allow other parties to submit the arbitrated agreements, provisions, or unbundled network elements to immediate arbitration in the "importing" state without waiting for the statutory negotiation period of 135 days to expire, where the state consented to conducting arbitration immediately. During 2001, no requests were received to obtain immediate arbitration.

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- d. Each Verizon out-of-region local exchange affiliate posted on the Verizon web site agreements entered into with non-affiliated incumbent local exchange carriers.
- e. In applying the provisions of Condition IX, *Most-Favored-Nation Provision for Out-of-Region and In-Region Arrangements*, the FCC found, as detailed in the Memorandum Opinion and Order released February 28, 2002 addressing a complaint filed against the Company by a CLEC, that CLECs have the right in certain circumstances to adopt in one state an entire interconnection agreement that Verizon had entered into in another state, including provisions that provide compensation for Internet-bound traffic. The FCC also found that, under paragraph 32 of the Merger Conditions, only those provisions of interconnection agreements that are consistent with state laws and regulatory requirements can be adopted across state lines and therefore it is the responsibility of state commissions to determine whether Internet compensation provisions are allowable. The states involved have not yet ruled on this issue.

X. Multi-State Interconnection and Resale Agreement

The Companies complied with the requirements of this Condition by making available a generic multi-state interconnection and resale agreement covering all BA/GTE service areas that was available, upon request, for negotiation to cover interconnection and resale agreements for any two or more states in the Verizon service area.

XI. Carrier-to-Carrier Promotions: Unbundled Loop Discount

The Companies complied with the requirements of this condition by providing the required unbundled loop discounts to all carriers unless the carrier proactively chose not to accept the discount, in accordance with the Merger Conditions and as listed in a. through f. below:

- a. This discount was not offered in New York, which received approval to provide in-region interLATA services prior to Merger Closing Date.
- b. Effective as of April 26, 2001, the Companies were authorized to provide in-region interLATA services in Massachusetts and on July 21, 2001, the offering window for this discount was closed.
- c. Effective as of September 28, 2001, the Companies were authorized to provide in-region interLATA services in Pennsylvania and on December 15, 2001, the offering window for this discount was closed.
- d. Effective as of July 30, 2001, the Companies were authorized to provide in-region interLATA services in Connecticut and on January 19, 2002, the offering window for this discount was closed.
- e. In some instances, the Companies under billed for unbundled loops. In some states to avoid over billing, Verizon's policy has been to bill all carriers at the lowest rate for unbundled loops in any interconnection agreement, state-approved rate, or tariff in each

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state. Verizon has no plans to re-coup this under billing to customers unless the merger discounts can be accurately and correctly applied as part of that process.

- f. Notification of the discount was posted on the Wholesale Internet Website.

XII. Carrier-to-Carrier Promotions: Resale Discount

The Companies complied with the requirements of this condition by providing the required resale discount to all carriers, unless the carrier proactively chose not to accept the discount in accordance with the Merger Conditions. Notification of the discount was posted on the Wholesale Internet Website and CLECs were notified, on a state-by-state basis, when 50%, 80% and 100% of the maximum required number of resold lines was reached.

- a. The discount was offered at 1.1 times the standard wholesale rate in New York, which received approval to provide in-region interLATA services prior to Merger Closing Date.
- b. Effective as of April 26, 2001, the Companies were authorized to provide in-region interLATA services in Massachusetts and effective as of May 28, 2001, the discount was reduced to 1.1 times the standard wholesale rate.
- c. Effective as of September 28, 2001, the Companies were authorized to provide in-region interLATA services in Pennsylvania and effective as of October 21, 2001, the discount was reduced to 1.1 times the standard wholesale rate.
- d. Effective as of July 30, 2001, the Companies were authorized to provide in-region interLATA services in Connecticut and effective as of January 19, 2002, the discount was reduced to 1.1 times the standard wholesale rate.
- e. On August 8, 2001, notification was sent to CLECs doing business in the District of Columbia that 50% of the number of promotional resold lines specified in Attachment E of the Merger Conditions was met.
- f. On May 8, 2001, notification was sent to CLECs doing business in Texas that 50% of the number of promotional resold lines specified in Attachment E of the Merger Conditions was met. On November 27, 2001, notification was sent to CLECs in Texas that 80% of the promotional resold lines specified in Attachment E of the Merger Conditions was met.
- g. On May 8, 2001, notification was sent to CLECs doing business in Kentucky that 50% of the number of promotional resold lines in Attachment E was met. On December 5, 2001, notification was sent to CLECs in Kentucky that 80% of the promotional resold lines specified in Attachment E of the Merger Conditions was met.
- h. On January 9, 2001, March 5, 2001, and May 8, 2001, notification was sent to CLECs doing business in South Carolina that 50%, 80%, and 100% of the number of promotional resold lines, respectively, specified in Attachment E was met and the offering window would be closed on or about May 29, 2001. On May 11, 2001, the South Carolina Public Service Commission was provided notice of the offering window closure. The FCC was provided notice on May 14, 2001.

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- i. On January 9, 2001, February 23, 2001, and April 18, 2001, notification was sent to CLECs doing business in Alabama that 50%, 80%, and 100% of the number of promotional resold lines, respectively, specified in Attachment E was met and the offering window would be closed on or about May 15, 2001. Notice of the offering window closure was provided to the FCC and the Alabama Public Service Commission on May 1, 2001.
- j. On August 28, 2001, notification was sent to CLECs doing business in North Carolina that 50% of the number of promotional resold lines in Attachment E of the Merger Conditions was met.
- k. On July 30, 2001, notification was sent to CLECs doing business in Florida that 50% of the number of promotional resold lines specified in Attachment E of the Merger Conditions was met.

XIII. Offering of UNEs

This Merger Condition was not operative because none of the FCC's rules in the UNE remand and line sharing orders had been vacated or stayed. Verizon continued to make available the UNEs and UNE combinations required in the FCC's UNE and line sharing orders as described in Condition VIII of the Merger Order, *Collocation, Unbundled Networks Elements and Line Sharing Compliance*.

XIV. Alternative Dispute Resolution through Mediation

The Companies complied with the requirements of this Condition in the following manner:

Subject to state commission approval and participation, implemented an alternative dispute resolution mediation process to resolve carrier-to-carrier disputes regarding the provision of local services, including disputes relating to interconnection agreements. The Companies kept the new alternative dispute resolution process posted on their Internet Websites through the Evaluation Period.

As of December 31, 2001, Verizon had received no formal Alternative Dispute Resolution mediation requests.

XV. Access to Cabling in Multi-Unit Properties

The Companies complied with the requirements of this Condition by completing a cabling access trial to identify procedures and associated costs required to provide telecommunications carriers with access to cabling within Multi-Dwelling Unit premises where the Companies control the cables. Specifically, Verizon conducted this trial to determine the feasibility of permitting CLECs to perform their own cross-connect work when accessing or interconnecting to Verizon house and riser cabling.

The trial that began on January 17, 2000, regarding feasibility of CLECs performing their own cross-connect work when accessing or interconnecting with Verizon controlled House and Riser cabling was

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concluded in June 2001. The model interconnection agreements that provide CLECs with access to or interconnection with House and Riser cabling controlled by Verizon in Multi-Dwelling Units and multi-tenant units were available throughout 2001 and were not changed as a result of the trial.

Where appropriate and consistent with state law and regulation, Verizon offered owners and developers of multi-tenant properties, in writing, the option to install a single point of interconnection at a minimum point of entry when the property owner or other party owns or maintains the cabling beyond the single point of interconnection. Verizon installed new cables in a manner to provide telecom carriers a single point of interconnection, where Verizon had the right to do so without consent of another party. Verizon also provided written notice for multi-tenant property owners that Verizon will install and provide new cables that permit a single point of interconnection in states where the demarcation point is not already at a minimum point of entry.

Fostering Out-of-Territory Competitive Entry

XVI. Out-of-Territory Competitive Entry

Verizon complied with the requirements of this Condition in the following manner:

During the 12-month period ending June 30, 2001, Verizon spent at least \$100 million in qualified expenditures in Out-of-Region markets. At least 20% of these expenditures were used to provide Competitive Local Service to residential customers or to provide Advanced Services.

Improving Residential Phone Service

XVII. InterLATA Services Pricing

Verizon complied with the requirements of this Condition by each Verizon subsidiary that provided interLATA long distance service to wireline residential customers within the United States during the Evaluation Period continuing to have in effect an interLATA long distance offering that did not include mandatory, minimum monthly, or flat rate charges for interLATA service. Ongoing compliance includes those states in which Verizon secured Section 271 authorizations during the Evaluation Period.

XVIII. Enhanced Lifeline Plans

The Companies complied with the requirements of this Condition by maintaining an Enhanced Lifeline Plan in Delaware that was comparable to the Ohio Universal Service Assistance (USA) Lifeline Plan in the areas of subscriber eligibility, discounts and eligible services. Further, on August 22, 2001 the Companies filed the USA Lifeline Plan tariff with the Illinois commission. The Enhanced Lifeline Plan implemented on August 27, 2001 and maintained in Illinois was comparable to the Ohio Universal Service Assistance (USA) Lifeline Plan in the areas of subscriber eligibility, discounts and eligible services, and also contained certain additional provisions necessary for compliance with pre-existing rules for Illinois Lifeline programs.

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XIX. Additional Service Quality Reporting

This report does not address compliance with this Condition, as described above.

Ensuring Compliance with and Enforcement of These Conditions

XX. NRIC Participation

The Companies complied with requirements of this condition by continuing to participate in the Network Reliability and Interoperability Council (NRIC) V meetings held on February 27, 2001, June 26, 2001, October 30, 2001, and January 4, 2002. The companies also participated in the Focus Group 2 and 3 meetings held throughout the year. The Companies participated in the Focus Group 4 meeting on March 1, 2001, and monitored the minutes of this Focus Group throughout the year.

XXI. Compliance Program

Verizon complied with the requirements of this Condition by providing accurate and timely reports to the FCC, as required by the Condition, including its Annual Compliance Report that was filed on March 15, 2002, which disclosed issues known at that time. The following minor errors in the Annual Compliance Report have been corrected and properly reported in these Management Assertions: (1) the date on which notification was sent to CLECs doing business in Texas that 80% of the number of promotional resold lines in Attachment E had been met was November 27, 2001, not November 11, 2001 as stated in the Compliance Report; (2) the date that notification was sent to CLECs doing business in South Carolina that 50% of the number of promotional resold lines in Attachment E had been met was January 9, 2001, not January 1, 2001 as stated in the Compliance Report; (3) the Compliance Report did not note that on July 30, 2001, notification was sent to CLECs doing business in Florida that 50% of the number of promotional resold lines specified in Attachment E of the Merger Conditions was met; (4) the date that notification was sent to CLECs doing business in Kentucky that 80% of the number of promotional resold lines in Attachment E had been met was December 5, 2001, not November 27, 2001 as stated in the Compliance Report; (5) the Compliance Report did not note that on August 8, 2001, notification was sent to CLECs doing business in the District of Columbia that 50% of the number of promotional resold lines specified in Attachment E of the Merger Conditions was met; and (6) the first 2001 quarterly xDSL Status Report was filed on April 30, 2001, not April 20, 2002, as stated in the Compliance Report.

A senior corporate officer appointed as Senior Vice President – Regulatory Compliance oversaw implementation of, and compliance with, the Merger Conditions. The Senior Vice President – Regulatory Compliance presented merger compliance status to the audit committee of the Verizon board of directors on February 28, 2001, June 7, 2001, and November 1, 2001. Verizon consulted with the FCC staff on an ongoing basis regarding Verizon's compliance. Verizon provided accurate and timely notices to the FCC and state public utilities commissions pursuant to specific notification requirements

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of the Merger Conditions. These notices were provided to PricewaterhouseCoopers LLP in a timely manner.

XXII. Independent Auditor

Verizon complied with the requirements of this condition by engaging the independent auditors deemed acceptable to the FCC for the 2001 Merger audits as follows:

- a. Genuity Engagement – Mitchell & Titus, LLP;
- b. Advanced Services agreed-upon procedures engagement – PricewaterhouseCoopers LLP; and
- c. General Merger Conditions Engagement – PricewaterhouseCoopers LLP.

The auditors selected have not been instrumental during the past 24 months in designing all or substantially all of the systems and processes under examination in the attestation engagement.

The Genuity and the General Merger Conditions audit reports were filed with the FCC on June 1, 2001. The Advanced Services agreed-upon procedures report was filed on June 18, 2001, the date specified in the extension granted by the Common Carrier Bureau on April 27, 2001. Work papers were made available at a Washington, D.C. location.

On July 19, 2001, Verizon and the Audit Staff met to confer regarding changes to the detailed audit programs. The Company kept the FCC informed of matters required under the Merger Conditions during the Evaluation Period. Verizon granted the independent auditors access to all books, records, operations, and personnel relevant to the Conditions addressed in this report.

XXIII. Enforcement

There has been no determination by the Chief of the Common Carrier Bureau that the term of a merger condition should be extended because Verizon failed to comply with the Merger Conditions during the effective period of any Condition.

XXIV. Sunset

There was no sunset of Merger Conditions addressed in this report during the Evaluation Period except for the accelerated sunset of the separate Advanced Services affiliate described in Condition I, and the billing discount termination dates described in Conditions VI, XI, and XII.

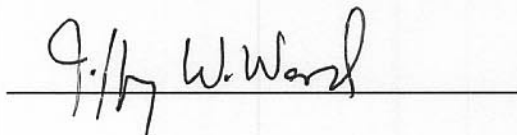
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XXV. Effect of Conditions

Verizon followed the guidance of this Condition in interpreting and applying the Merger Conditions and the relationship to state law.

Verizon Communications Inc.

A handwritten signature in dark ink, appearing to read "J. W. Ward", is written over a solid horizontal line.

Jeffrey W. Ward,

Senior Vice President - Regulatory Compliance

Report of Independent Accountants

To the Board of Directors of Verizon Communications Inc.:

1. We have examined Verizon Communications Inc.'s (the "Company" or "Verizon") compliance with the conditions set forth in Appendix D (the "Merger Conditions") of the Federal Communications Commission's (the "FCC") Memorandum Opinion and Order in Common Carrier Docket No. 98-184¹ approving the Bell Atlantic/GTE Merger, during the Evaluation Period², and management's assertions, included in the accompanying Report of Management on Compliance with the Merger Conditions (the "Assertions"), that the Company complied with the Merger Conditions, during the Evaluation Period, except as noted herein. At the direction of the FCC and the Company, the Company's compliance with Condition I, *Separate Affiliate for Advanced Services*, of the Merger Conditions is not reported herein and is not addressed in the accompanying Assertions. The Company's compliance with Condition V, *Carrier to Carrier Performance Plan*, Condition VIII, *Collocation, Unbundled Network Elements and Line Sharing Compliance* and Condition XIX, *Additional Service Quality Reporting*, is not addressed in the accompanying Assertions, and is not reported upon herein as the scope of our examination related to those conditions was clarified by the FCC staff in a letter dated May 29, 2002 to the Senior Vice President—Regulatory Compliance of Verizon from the Deputy Chief, Investigations and Hearings Division of the Enforcement Bureau and accordingly, our examination of those conditions has not been completed. Management is responsible for the Company's compliance with the Merger Conditions. Our responsibility is to express an opinion on the Company's compliance based on our examination.
2. Except as discussed in paragraph 3 of this report, our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Company's compliance with specified requirements.

¹ Merger Conditions are set forth in Appendix D of the Federal Communications Commission's ("FCC's") Order Approving the Bell Atlantic/GTE Merger (*Application of GTE Corporation, Transferor, and Bell Atlantic Corporation, Transferee, for Consent to Transfer Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License*, CC Docket No. 98-184, Memorandum Opinion and Order, FCC 00-221 (rel. June 16, 2000).

² The Evaluation Period is the year ended December 31, 2001, with the exception of Conditions VIII and XIII for which the Evaluation Period is July 1, 2001 through December 31, 2001, as provided in Paragraphs 27c and 28a of Appendix D.

3. As discussed in paragraph 1, this report does not address compliance with Conditions I, V, VIII and XIX. Condition I is addressed in a separate agreed-upon procedures engagement report of PricewaterhouseCoopers LLP. Conditions V, VIII and XIX will be the subject of a separate attestation engagement report of PricewaterhouseCoopers LLP. As addressed in the letter discussed in paragraph 1, the filing deadline for this attestation engagement report is October 1, 2002. As required by Condition XXI, *Compliance Program*, the Company filed an annual compliance report on March 15, 2002, which included information related to Conditions I, V, VIII and XIX and Appendix B, *Genuity Conditions*, to the Common Carrier Docket No. 98-184. We did not perform any procedures regarding the information contained in the annual compliance report for Condition I and Appendix B to the Common Carrier Docket No. 98-184. We have not completed our procedures regarding the information contained in the annual compliance report for Conditions V, VIII and XIX.
4. In applying the provisions of Condition IX, *Most-Favored-Nation Provision for Out-of-Region and In-Region Arrangements*, the FCC staff found, as detailed in the Memorandum Opinion and Order released February 28, 2002 addressing a complaint filed against the Company by a CLEC, that CLECs have the right, in certain circumstances, to adopt in one state an entire interconnection agreement that Verizon had entered into in another state, including provisions that provide compensation for Internet-bound traffic. However, the FCC staff also found that, under paragraph 32 of the Merger Conditions, only those provisions of interconnection agreements that are consistent with state laws and regulatory requirements can be adopted across state lines and therefore it is the responsibility of state commissions to determine whether Internet compensation provisions are allowable. Two CLECs in two different states have requested to adopt an entire interconnection agreement. The two state commissions that are responsible for adjudicating this issue have not yet ruled on the issue. Accordingly, we are unable to make an assessment of the impact of this matter on the Company's compliance with Condition IX.
5. In our opinion, except for the effects of the procedures we did not perform regarding the information contained in the Company's annual compliance report for Condition I and Appendix B, as discussed in paragraph 3, and limited as a result of the procedures we have not completed for Conditions V, VIII and XIX as discussed in paragraph 3, and considering the uncertainty related to Condition IX as discussed in paragraph 4, the Company complied, in all material respects, with the Merger Conditions other than for Conditions I, V, VIII and XIX during the Evaluation Period, including the filing of an accurate annual compliance report, and the Company provided the FCC with timely and accurate notices pursuant to specific notification requirements.
6. This report is intended solely for the information and use of the Company and the FCC and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.

PricewaterhouseCoopers LLP

May 31, 2002